

CEDAR VALLEY MENTAL HEALTH CENTER

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS

June 30, 2006

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CEDAR VALLEY MENTAL HEALTH CENTER

BOARD OF DIRECTORS

As of June 30, 2006

	Term Expires	Name and Address
Bremer County	2006	Kent Hawley, Waverly IA
	2006	Keith Collins, Waverly IA
	2006	Linda Hall, Janesville IA
	2006	Jayne Hall, Waverly IA
Butler County	2006	Kathleen Eberle, Allison IA
	2006	Larry Backer, Clarksville IA
	2006	Paul Schaedig, Parkersburg IA
	2006	Fred Maifeld, Clarksville IA
Chickasaw County	2006	Eleanor Martin, New Hampton IA
	2006	Wendell Hurst, New Hampton IA
	2006	Jim Schueth, New Hampton IA
	2006	Francie Crawford, Fredericksburg IA
OFFICERS:		
President		Jayne Hall
Vice-President		Francie Crawford
Secretary		Kathleen Eberle
Treasurer		Keith Collins
STAFF:		
Executive Director		Chris Hoffman

Independent Auditor's Report


To the Board of Directors of
Cedar Valley Mental Health Center

I have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of Cedar Valley Mental Health Center, as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Center's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cedar Valley Mental Health Center at June 30, 2006 and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 16, 2006 on my consideration of Cedar Valley Mental Health Center's internal control over financial reporting and my tests of its compliance with certain provision of laws, regulations and contracts. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.


Keith Oltrogge
Certified Public Accountant

August 16, 2006

CEDAR VALLEY MENTAL HEALTH CENTER

STATEMENTS OF FINANCIAL POSITION

At June 30, 2006

With Comparative Totals for June 30, 2005

ASSETS	Current Fund Unrestricted	Land Building & Equipment Fund	2006 Total (Memorandum Only)	2005 Total (Memorandum Only)
Cash – operating	\$ 169,500	\$ -	\$ 169,500	\$ 251,523
Accounts receivable, patient services (less allowance for doubtful accounts of \$141,141 and \$118,574 at June 30, 2006 and 2005, respectively	130,285	-	130,285	109,568
Grants receivable	8,330	-	8,330	2,032
Property and Equipment (Note 2)				
Land and buildings	-	721,412	721,412	716,267
Furniture, fixtures and equipment	-	242,481	242,481	221,389
Accumulated depreciation	-	-316,723	-316,723	-300,895
Net construction interest	-	-	-	1,267
Other assets	2,482	-	2,482	9,761
TOTAL ASSETS	\$ 310,597	\$ 647,170	\$ 957,767	\$ 1,010,912
LIABILITIES & NET ASSETS				
Liabilities:				
Accounts payable	\$ 37,440	\$ -	\$ 37,440	\$ 3,104
Accrued payroll	15,512	-	15,512	6,282
Accrued interest	-	-	-	171
Accrued compensated absences	20,135	-	20,135	24,968
Mortgage payable	-	-	-	51,915
Total Liabilities	\$ 73,087	\$ -	\$ 73,087	\$ 86,440
Net Assets - unrestricted	\$ 237,510	\$ 647,170	\$ 884,680	\$ 924,472
TOTAL LIABILITIES & NET ASSETS	\$ 310,597	\$ 647,170	\$ 957,767	\$ 1,010,912

See notes to financial statements.

CEDAR VALLEY MENTAL HEALTH CENTER

STATEMENTS OF ACTIVITIES

At June 30, 2006

With Comparative Totals for June 30, 2005

	Current Fund Unrestricted	Land Building & Equipment Fund	2006 Total (Memorandum Only)	2005 Total (Memorandum Only)
PUBLIC SUPPORT AND REVENUES:				
Public Support:				
Butler County	\$ 70,770	\$ -	\$ 70,770	\$ 74,529
Chickasaw County	57,025	-	57,025	57,452
Community Investment Grant & Mental Health Services Block Grant	40,049	-	40,049	32,908
United Way support	16,000	-	16,000	16,075
Contributions	696	-	696	100
	<u>\$ 184,540</u>	<u>\$ -</u>	<u>\$ 184,540</u>	<u>\$ 181,064</u>
Revenues:				
Patient fees, services & Title XIX	\$ 434,299	\$ -	\$ 434,299	\$ 477,537
Investment income	5,986	-	5,986	5,267
Miscellaneous income	3,520	-	3,520	325
Rental income	6,285	-	6,285	2,400
	<u>\$ 450,090</u>	<u>\$ -</u>	<u>\$ 450,090</u>	<u>\$ 485,529</u>
TOTAL PUBLIC SUPPORT & REVENUES	<u>\$ 634,630</u>	<u>\$ -</u>	<u>\$ 634,630</u>	<u>\$ 666,593</u>
EXPENSES:				
Program Services:				
Mental health center Programs	\$ 521,451	\$ -	\$ 521,451	\$ 459,005
Support services	135,876	17,095	152,971	184,885
TOTAL EXPENSES	<u>\$ 657,327</u>	<u>\$ 17,095</u>	<u>\$ 674,422</u>	<u>\$ 643,890</u>
Change in net assets	\$ -22,697	\$ -17,095	\$ -39,792	\$ 22,703
Other changes in net assets, property and equipment acquisitions, and debt payments	-78,152	78,152	-	-
Net assets beginning of year	338,359	586,113	924,472	901,769
NET ASSETS END OF YEAR	<u>\$ 237,510</u>	<u>\$ 647,170</u>	<u>\$ 884,680</u>	<u>\$ 924,472</u>

See notes to financial statements.

CEDAR VALLEY MENTAL HEALTH CENTER

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2006

With Comparative Totals for June 30, 2005

	Program Services Mental Health Center Programs	Support Services, Management & General	2006 Total	2005 Total
Salaries	\$ 315,777	\$ 61,290	\$ 377,067	\$ 372,531
Contract services	98,153	23,536	121,689	108,770
Payroll taxes	25,082	5,118	30,200	29,261
Benefits	39,495	4,817	44,312	33,777
Staff development	5,037	25	5,062	3,842
Dues, subscriptions & licenses	1,217	5,776	6,993	3,225
Repair & maintenance	3,046	11,525	14,571	5,446
Insurance	3,597	9,053	12,650	12,722
Postage	1,659	903	2,562	2,698
Professional fees	4,292	2,600	6,892	3,353
Travel	7,231	1,119	8,350	6,787
Telephone	3,187	2,753	5,940	7,087
Utilities	2,423	3,323	5,746	6,002
Advertising	-	-	-	6,528
Supplies & office supplies	6,313	3,227	9,540	11,328
Office rent	3,520	-	3,520	2,242
Equipment rent	-	-	-	1,617
Miscellaneous	1,422	768	2,190	1,159
Interest expense	-	43	43	3,039
Bad debt expense	-	-	-	6,574
Total Expenses Before Depreciation	\$ 521,451	\$ 135,876	\$ 657,327	\$ 627,988
Other Expenses: Depreciation & amortization	-	17,095	17,095	15,902
TOTAL EXPENSES	\$ 521,451	\$ 152,971	\$ 674,422	\$ 643,890

See notes to financial statements.

CEDAR VALLEY MENTAL HEALTH CENTER

STATEMENTS OF CASH FLOWS
June 30, 2006
With Comparative Totals for June 30, 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ -39,792	\$ 22,703
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	15,828	15,860
Amortization	1,270	42
(Increase) Decrease in Assets:		
Accounts receivable	-20,720	-20,209
Grants receivable	-6,298	18,211
Other assets	7,279	-1,903
Increase (Decrease) in Liabilities:		
Accounts payable	34,336	-3,413
Accrued payroll	9,230	-10,783
Accrued compensated absences	-4,833	818
Accrued interest	-171	-642
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	\$ -3,871	\$ 20,684
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	\$ -26,237	\$ -1,554
NET CASH FLOWS USED BY INVESTING ACTIVITIES	\$ -26,237	\$ -1,554
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	\$ -51,915	\$ -22,749
NET CASH FLOWS USED BY FINANCING ACTIVITIES	\$ -51,915	\$ -22,749
Net Decrease in Cash for the Year Ended June 30	\$ -82,023	\$ -3,619
Cash and Cash Equivalents at July 1	251,523	255,142
CASH AND CASH EQUIVALENTS AT JUNE 30, 2006 & 2005	\$ 169,500	\$ 251,523
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	\$ 214	\$ 3,039
Cash paid for income tax	\$ -	\$ -

CEDAR VALLEY MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entities

The Cedar Valley Mental Health Center is a non-profit corporation established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. Services are provided to residents of Bremer, Butler and Chickasaw Counties.

The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provide tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes.

B. Fund Accounting

The accounts of the Center are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, net assets, revenues and expenses. The various funds are grouped as follows in the financial statements:

Current Funds:

Unrestricted – The current unrestricted fund accounts for all resources over which the Center has discretionary control to use in carrying on the operations of the organization in accordance with the limitation of its charter and bylaws except for unrestricted amounts invested in land, buildings and equipment that may be accounted for in a separate fund.

The Board may designate portions of the current unrestricted fund for specific purposes, projects or investment as an aid in the planning of expenses and the conservation of assets. The Center maintains separate accounts for such designations within the current fund and segregates the designated and undesignated portions of the fund within the net asset section of the balance sheet.

Land, Building & Equipment Fund – The land, building and equipment fund is used to accumulate the net investment in fixed assets and to account for the unexpended resources contributed specifically for the purpose of acquiring or replacing land, buildings or equipment for use in the operations of the organization.

CEDAR VALLEY MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Purchase of fixed assets providing future benefits are directly charged against the current unrestricted fund balance and capitalized in the land, building and equipment fund.

D. Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Center and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

E. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheets:

Cash and Cash Equivalents – The Center considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Receivables – Receivables are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual patient balances.

CEDAR VALLEY MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment – Property and equipment is stated at cost. Depreciation is computed by the straight-line method over the estimated useful lives of 5-60 years.

Compensated Absences – Center employees accumulate a limited amount of earned but unused vacation and sick leave benefits. Amounts representing the cost of compensated absences are recorded as liabilities and have been computed based on current rates of pay in effect at June 30, 2006.

Net Patient Service Revenue – Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

F. Total Columns

The total columns on the statements of financial position and the statements of activities are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles.

G. Estimates

The presentation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CEDAR VALLEY MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS June 30, 2006

NOTE 2 – PROPERTY AND EQUIPMENT

A summary of changes in property and equipment is as follows:

	Balance Beginning Of Year	Additions	Deletions	Balance End Of Year
Land & buildings	\$ 716,267	\$ 5,145	\$ -	\$ 721,412
Furniture, fixtures & equipment	221,389	21,092	-	242,481
Total	\$ 937,656	\$ 26,237	\$ -	\$ 963,893

NOTE 3 – OPERATING LEASES

Satellite office locations and some equipment are leased on a month-to-month basis.

NOTE 4 – RELATED PARTIES AND ECONOMIC DEPENDENCY

The Cedar Valley Mental Health Center, during the year ended June 30, 2006, received \$70,770 from Butler County and \$57,025 from Chickasaw County for operating assistance. One member of the Chickasaw and Butler County Boards of Supervisors also serves as a voting member on the Board of Directors of the Cedar Valley Mental Health Center.

NOTE 5 – CASH AND INVESTMENTS

The Center's deposits at June 30, 2006 were not entirely covered by Federal depository insurance. The Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

NOTE 6 – CONCENTRATIONS OF CREDIT RISK

The Center maintains its cash in bank deposit accounts at two financial institutions, which, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts. The Center believes it is not exposed to any significant credit risk on cash. At June 30, 2006, the Center's uninsured cash balance was approximately \$69,500.

CEDAR VALLEY MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 7 – LONG-TERM DEBT

Lender	6-30-05 Loan Balance	Current Portion	Interest Rate	Due Date	Security
First National Bank- Waverly	<u>\$51,915</u>	<u>\$17,224</u>	6.0%	8-14-28	Real Estate-Office Building

NOTE 8 – CENTER RISK MANAGEMENT

Cedar Valley Mental Health Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 9 – IN-KIND DONATIONS

Directors and officers of the Cedar Valley Mental Health Center provide various in-kind volunteer services for legal, financial and administrative assistance. The value of these services is not reflected in these financial statements.

NOTE 10 – SUBSEQUENT EVENTS

As of July 1, 2006, Cedar Valley Mental Health Center merged into and became a division of Pathways Behavioral Services, Inc., an Iowa non-profit corporation.

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Cedar Valley Mental Health Center

I have audited the accompanying financial statements of the Cedar Valley Mental Health Center as of and for the year ended June 30, 2006, and have issued my report thereon dated August 16, 2006. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.


Internal Control Over Financial Reporting

In planning and performing my audit, I considered Cedar Valley Mental Health Center's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cedar Valley Mental Health Center's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management and Board of Directors of Cedar Valley Mental Health Center and is not intended to be and should not be used by anyone other than these specified parties.


Keith Oltrogge
Certified Public Accountant

August 16, 2006

CEDAR VALLEY MENTAL HEALTH CENTER

SCHEDULE OF FINDINGS
Year Ended June 30, 2006

(None)